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National Association of Purchasing Management

Report On Business®

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Purchasing Index Hits 3 Year High

New Orders & Production Expand

Prices Higher For Eleventh Month

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

July Report

The economy continued to expand in July, say the nation's purchasing managers in their latest **Report on Business.** Production increased, but somewhat slower than in May and June, while new orders expanded at a faster pace than in the past two months. The speed of vendor deliveries slowed for the tenth consecutive month, reflecting steadily growing production demand and shortages in certain commodities. Inventories declined in July, due likely to these shortages, combined with the large number of plants closing for vacation and or maintenance. Employment also declined, after four consecutive months of expansion; and for the eleventh consecutive month, purchasers reported more price increases than decreases. In answer to special questions, 70% of those queried reported their overall prices are now an average of 3.4% higher than at the end of 1986. Overall, all members anticipate an additional 2.3% average price increase by the end of 1987. Seventy-three percent of all respondents said their companies export, with 42% reporting a moderate improvement in export orders over the past two months, 6% a substantial improvement, and 51% reporting no improvement at all. Of the 48% reporting improvement, 56% said their products were short cycle (within three months), 14% long cycle (over three months), and 30% both. Respondents who import totaled 81%, with 32% indicating a moderate decrease in their imports over the past two months, 4% a substantial decrease, and 64% reporting no decrease at all. For the remainder of 1987, 55% expect to import at the same level, 24% expect a moderate increase, 18% a moderate decrease and 3% a substantial decrease.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management, Pitney Bowes, Inc. Mr. Bretz said, "As predicted last month, the economy is very healthy entering the second half of 1987. Considering the normal seasonal slowing in July, production was very strong. The robust expansion in new orders portends continued growth in the third quarter."

The **Purchasing Managers' Composite Index** increased this month to 58.2% from 57.3% in June, making this the twelfth consecutive month this indicator has registered over 50%. Moreover, the 58.2% is the highest since May 1984 (58.6%). "The index has averaged 55.5% for the first seven months of 1987," Mr. Bretz said, "and based on past experience, if this average continues for the remainder of the year, it would be consistent with real GNP growth of about 3.5%." A reading above 50% generally indicates that the economy is in an expanding phase; below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment declined in July, the first downturn after four consecutive months of growth. Prior to March 1987, however, members reported 29 consecutive months of employment decline.

Employment %	Higher	Same	Lower	Net Differ.
July	14	69	17	– 3
June	18	70	12	+ 6
May	17	72	11	+ 6

Buying Policy

Lead times for production materials lengthened, with the number of members reporting lead times of 60 days or less shrinking to 76% from 81% in June. Lead times for capital expenditures were slightly longer in July, with those reporting lead times of 30 days or less decreasing to 15% from 18% in June. Lead times for maintenance, repair and operating (MRO) supplies also expanded modestly, with the number of members reporting lead times of 30 days or less declining to 81% from 84% in June.

	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
Production Materials %					
July	16	40	20	15	9
June	15	43	23	11	8
May	16	36	23	18	7
MRO Supplies %					
July	40	41	12	6	1
June	40	44	9	5	2
May	40	45	8	4	3
Capital Expenditures %					
July	9	6	10	19	56
June	9	9	10	16	56
May	13	7	11	17	52

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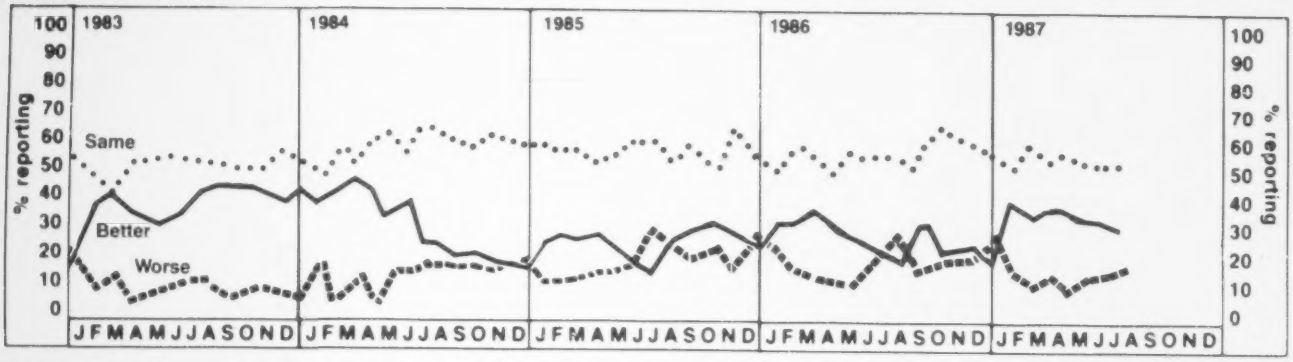
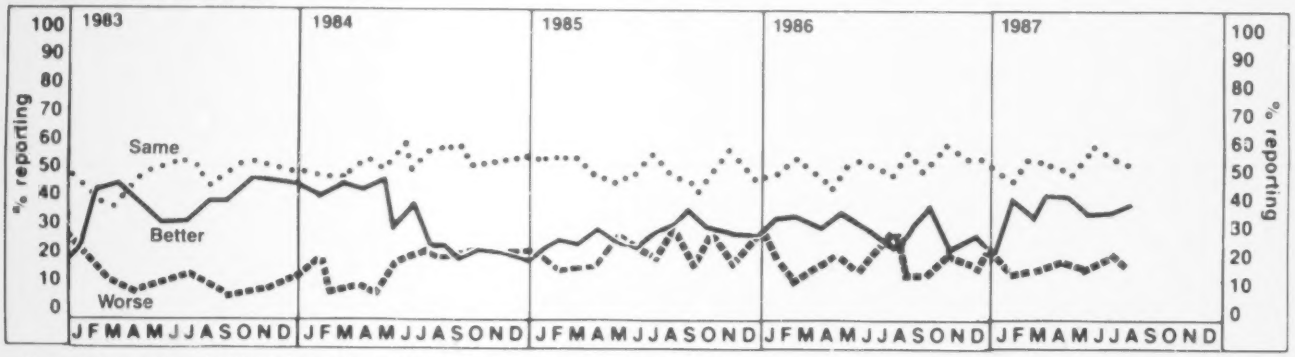
Production



For the seventh month, production grew, although the rate of growth was slower in each of the past three months. Nevertheless, considering the season, July production was strong.

Production %	Better	Same	Worse	Net
July	30	55	15	+15
June	32	55	13	+19
May	33	56	11	+22

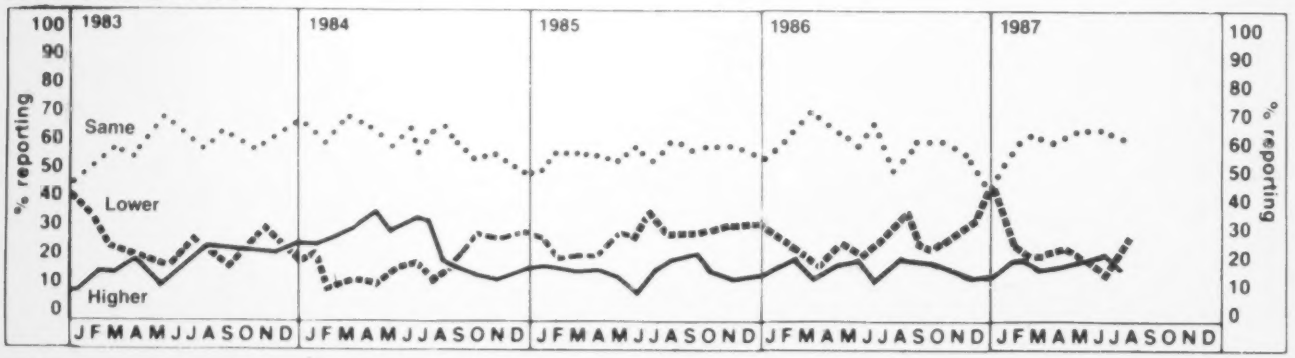
New Orders



New orders expanded in July for the seventh consecutive month at a faster pace than reported in May and June. This strong showing will no doubt result in continued production growth over the balance of the third quarter.

New Orders %	Better	Same	Worse	Net
July	39	48	13	+26
June	35	50	15	+20
May	34	55	11	+23

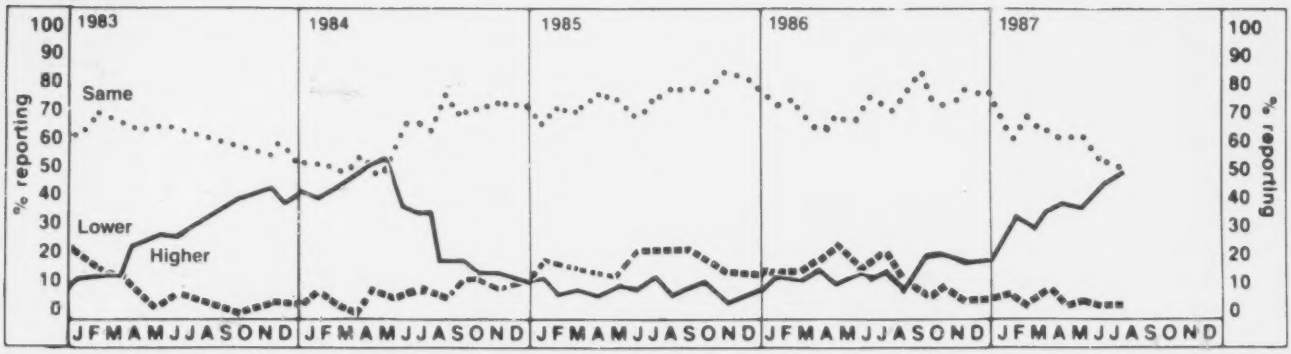
Inventories



Purchasers once again pared their inventories in July, after reporting an increase in June. June's increase had been the first in 34 consecutive months. Some of this reduction was not likely voluntary, however, and was linked to certain commodity shortages and the many plants closed for vacations and maintenance.

Inventories %	Higher	Same	Lower	Net
July	13	59	28	−15
June	19	64	17	+ 2
May	18	64	18	0

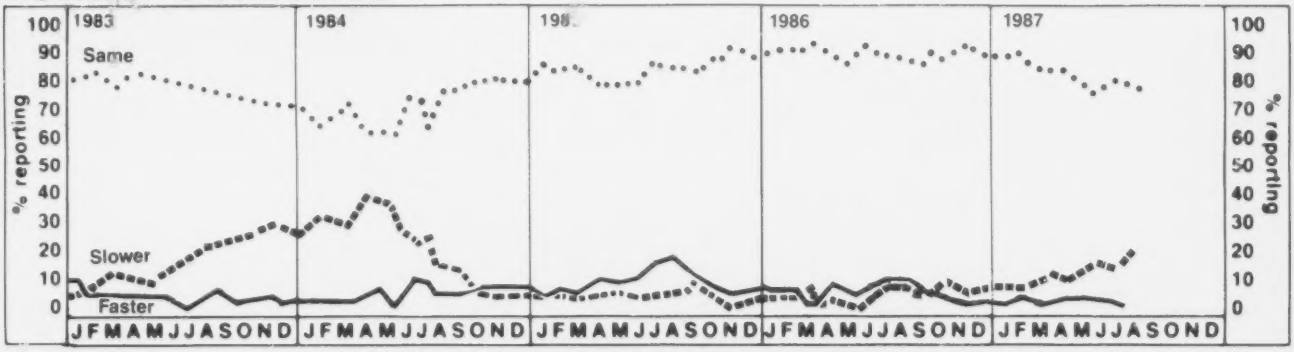
Prices



July is the eleventh consecutive month more purchasers reported paying higher prices (50%) than lower (2%). The 48% net difference is the largest since April 1984 (51%). However, purchasers expect only an additional 2.3% price increase in the last five months of 1987.

Prices %	Higher	Same	Lower	Net
July	50	48	2	+48
June	48	50	2	+46
May	38	59	3	+35

Vendor Deliveries



Vendor deliveries slowed substantially in July, and for the ninth consecutive month, reflecting the economy's continued improvement. The number of members reporting slower deliveries this month rose to 20%, the highest since July 1984 (28%). However, there's no doubt some of this slowness stems from shortages of steel resulting from the lengthy U.S. Steel strike.

Vendor Deliveries %	Faster	Same	Slower	Net
July	3	77	20	−17
June	5	80	15	−10
May	7	77	16	− 9

Specific Commodity Changes

The only item reported down in price in July was natural gas (fourth consecutive month). Two steel products (cold rolled sheets and steel plates) were reported in short supply for the second consecutive month. Also noted as being in short supply were styrene and caustic soda (second consecutive month). Metals, paper, fuel and petroleum-derived chemicals, resins, and plastic products again dominated items up in price. Linerboard, corrugated shipping containers (fifteenth time in the past sixteen months), and printing paper were all reported higher priced. Also reported as higher in price were diesel fuel and fuel oil (sixth time in past seven months). Metals reported up in price were steel (tenth time in past eleven months), steel plate, stainless steel sheets, zinc (second consecutive month), brass (second time in last four months), copper (fifth consecutive month) and aluminum (sixth consecutive month). Chlor-alkali chemicals were also reported higher in price: chlorine (second consecutive month), caustic soda (eighth consecutive month) and soda ash (second consecutive month). Petroleum-derived chemicals and plastic-related items up in price were polystyrene (third consecutive month), polyethylene (second consecutive month), latex (second time in the past three months), propylene (third consecutive month), phenolic resins (fourth time in the past five months), polyethylene resins, and plastic resins and products (both second consecutive month).

UP in Price: Printing paper, corrugated shipping containers, kraft linerboard (used in making corrugated containers), chlorine (used heavily in making bleached paper and paper board), caustic soda and soda ash (used heavily in petroleum refining and paper-making), aluminum, brass, copper, zinc, steel (particularly stainless sheets and steel plate), polystyrene (used chiefly in making synthetic rubber, resins and plastics), plastic resins, polyethylene resins, polyethylene, propylene (used in making thermoplastic plastics or fibers), phenolic resins (used in making plastic products), plastic products, latex (used in synthetic rubber products) and miscellaneous chemicals.

DOWN in Price: Natural gas.

In SHORT Supply: Steel plate, stainless steel sheets, styrene and caustic soda.

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available Sept. 8, 1987.

Commodity Reports

Paper Products

Prepared by the N.A.P.M. Paper Committee; chair, Glenn Farber, C.P.M., Vanier Graphics Corporation, Santee, CA.

If you've ever felt sorry for your paper mill salesperson, take a look at the March issue of *Pulp and Paper*, which reports on the 1986 earnings and record price levels of paper company stocks. Specifically, 1986 earnings were up 29.7% over 1985. Further, the price levels of some of the major paper companies' stocks were up some 22% early this year compared with 1986. This profitability and increased value of stocks has been the result of serious cost-cutting and equally serious improvements in productivity, for which the paper industry is to be congratulated.

As of this writing, several paper companies have one or more mills on strike or potentially ready for a strike. It seems 1987 will go down in these chronicles as an extremely challenging year!

Newsprint

The supply of newsprint is getting tight and mills are watching incoming orders closely. Operating rates in Canada for early this year were in the range of 99%, while that of the U.S. was slightly less, at about 95%, so it looks as if supplies will remain somewhat tight, at least for the balance of the year. Approximately 163,000 metric tons of added capacity are due in North America in 1987, with inventories increasing when material becomes available. A price increase was posed for July 1st, with a good chance of another increase occurring late this year or early in 1988. One major Canadian mill settled its labor contract, which will most likely reduce the chances for any major stoppages in eastern Canada.

Uncoated Groundwood

The supply of this grade is "firm," however, some increased demand has been prompted by the extremely tight coated-groundwood market. Deliveries are running from five to eight weeks with some inventory building. Prices are increasing, but the latest prices should hold at least through the fourth quarter.

Coated Groundwood

Coated groundwood, like the weather, is very changeable at present. As per our last report, this commodity was readily available and excess capacity prevailed. However, as so often happens in the paper industry, this grade has completely turned around and is extremely tight, with some allocations and lead times extending to 90 days. But much of this could be caused by inventory building for the Christmas publications, since inventory building is common in the third quarter, so the commodity will likely remain tight through the third quarter and probably the fourth quarter. Prices increased July 1st, with a good chance of further increases occurring if demand stays strong; however, this grade does have a history of fluctuation. Coated groundwood and coated free sheets have been the leading gainers in the first four months of 1987 with an increase of about 7.9% in production. Additionally, imports have risen some 29% from last year's level.

Uncoated Free Sheet

The demand for uncoated free sheets has leveled somewhat from the dramatic growth of 1986. Production through the first four months of 1987 is up only 2.7% from the comparable period in 1986. This grade is readily available and rumors about orders being exported are plentiful; however some delays could be encountered due to labor situations at some major mills. No additional capacity is expected to come on in 1987, but two large machines are scheduled to start up in late 1988. Inventories remain constant except for an occasional build-up in anticipation of often announced, but seldom implemented, price increases. However, it is likely some increase will stick around the fourth quarter.

Coated Free Sheet

This particular grade is not as tight as its companion, coated groundwood, but is suitably comfortable in demand to satisfy the producers, and should remain so in the near term, as one machine is scheduled to come on line late this year. Pricing is firm, with little discounting. Coated free sheet also typically experiences some inventory building around the third quarter, and is a good grade for foreign mills to export into the U.S.

Bleached Bristols

This grade, like uncoated free sheet, is readily available with fast deliveries and producers looking for business. Expectations are that it will remain stable for the balance of the year, with no additional capacity expected. Inventories are stable or slightly decreasing, while pricing is stable with discounts still prevalent.

Paperboard/Linerboard

These grades are the second leading gainer in production for 1987 compared with 1986. Demand still remains strong, especially in containerboard, with inventories continuing to decline. Meanwhile, exports of various paperboard grades continue to be very strong with some grades at record levels. The East reports SBS backlogs are weakening, while the West says mills are tight and on allocation. SUS backlogs are stable, with some added capacity scheduled in 1988. In the East, price reports for SBS are stable, while Western buyers report an increase; prices for SUS are uniformly stable. Linerboard increases for the second quarter apparently did not materialize, so another attempt will probably happen later this year.

Pulp

Pulp production remains very strong to date, running over 7% above last year. In fact, pulp mills posted an operating rate of 104% through the first four months of this year. There is little added capacity scheduled for pulp and thus the consensus is that it should remain strong for some time to come.

Packaging and Containers

Prepared by the N.A.P.M. Packaging and Containers Committee; chair, Carl D. Dirkse, C.P.M., S.C. Johnson & Son, Inc., Racine, WI.

The packaging market is changing dramatically. After several years of overcapacity and depressed prices, there are now shortages of some materials and price increases nearly across the board. Exports continue strong due to the weak dollar, but conversely, the weak dollar restricts imports. The Fredonia Group reports that industrial packaging shipments are projected to grow 6.4% annually. Microwaveable packaging is showing the most dramatic growth; overall, a 70% annual growth rate is being projected between now and 1991.

Metal Cans

There is more than adequate capacity in the can manufacturing facilities, but lead times are lengthening due to longer delivery times on steel raw material. Prices are stable, while metal cans continue to lose business to plastic containers. Some investors and industry executives are purchasing the can division of the Carnation Company.

Fibre Cans

The fibre can market has been weak for some time due to the switch to plastic and the consolidation of suppliers. However, some higher prices are being reported, as linerboard increases are being passed through.

Glass

After many plant shutdowns and the loss of business to plastics manufacturers, the glass industry seems to be settling down. Supply is adequate but plant capacity is being fully utilized, and full lead times are required. An attempt was made to increase prices in the second quarter, with little success. Glass companies are trying to capitalize on the growing concern about the disposal problems associated with plastic containers.

Molded Plastics

Molding capacity is adequate, but some shortages of resin are appearing. As a result, resin prices are increasing, which in turn affects the prices of molded products. Molded plastic containers continue to capture business from glass and metal container makers; metal can replacement by plastic amounts to over 1 billion units annually. Demands are increasingly being voiced to find a way to make plastic containers recyclable.

Films

Films are the fastest growing industrial packaging material; growth is projected at 9% annually between now and 1990. Current capacity is tight but adequate. Prices are rising due to resin price increases.

Laminated Stock

Supply is adequate but some price increases are being experienced due to higher prices in raw materials.

Metal Drums

Supply continues to be more than adequate. For the first time in years, there is one report of a price increase, due to the increased cost of steel.

Fibre Drums

Fibre drum makers are losing some business to plastic drum manufacturers. Supply is adequate. Some price increases are being experienced due to the rise in linerboard prices.

Folding Cartons

Here is a market that has changed significantly: after several years of overcapacity and depressed prices, there are now higher operating rates, particularly at the paperboard level. As a result, lead times are lengthening and prices are increasing. Demand is growing for liquid containers.

Corrugated

The corrugated market continues strong due to heavy domestic demand and a significant export business. Some tightness in availability is being reported. The $350.00/ton linerboard price seems to be settling in; however, there is talk about another possible increase between the third quarter of 1987 and the first quarter of 1988. Plans are afoot to negate this increase.

Bags

Supply is adequate for both plastic and paper bags, but prices are rising due to increasing costs for paper and plastic resin. The battle for market share between paper and plastic bags continues.